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The Relationship Between Target and Its Financial Advisor in Mergers and Acquisitions

- Are There Still Benefits to Gain?

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Key words	Relationship banking, Investment Banking, Asymmetrical Information, Target, Mergers & Acquisitions, Financial Advisor
Purpose	We aim to measure the effect of relationship building between target-firm and financial advisor in the Mergers and Acquisitions industry. We also aim to investigate what affects the target-firm's decision to stay loyal or switch financial advisor.
Methodology	We use a quantitative approach to analyze our cross-sectional data sampled from a database. We run both least square regressions and a probit regression to analyze our data. Further, we use an inductive research approach.
Theoretical perspective	Asymmetrical Information, Relationship Banking
Empirical Foundation	Our data consist of 686 observations collected from the database S&P Capital IQ. The data involves Mergers and Acquisitions transactions in Europe and the United States from 01/31/2010 to 12/31/2012.
Conclusions	Our main findings show that relationship building does not have a significant effect on the advisor fee and speed of transaction. Instead of earlier cooperation as representing relationships, transaction-oriented variables such as size of transaction and amount sought in the target-firm, have a larger influence on advisor fee and speed. Even though benefits as lower advisor fee and a quicker closed deal, will not be gained by building a relationship, target-firms still tend to stay loyal to their financial advisors when transactions are large (>$1 000 000 000), when they are cooperating with one of the top banks or when they already have had an earlier cooperation with that particular advisor.

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1. Introduction

Relationships in the banking industry have varied over time in importance and magnitude and have developed differently over the diverse areas of banking. As the finance industry has changed due to external forces such as technology changes, government interventions and globalization thus have the relationships between clients and banks changed.[1]

The importance of different relationships is a widely studied area and has again become highly relevant due to the development of the industry. It has recently been shown that Investment Banking relationships in general have during the last fifty years decreased in priority, as a consequence of primarily developments in information technology and financial engineering that in turn have transformed the financial markets.[2]

A specific branch of Investment Banking that we find specifically interesting in terms of relationships is Mergers and Acquisitions, throughout this paper we are writing M&A when referring to Mergers and Acquisitions. An M&A transaction can have a variety of different features and be executed in different ways, but the foundation of this kind of transaction is when a target-firm is acquired by another firm (acquirer). The M&A process may look different depending on the type of M&A transaction that is performed, although there are some common steps that are often reoccurring in M&A transactions. Both acquirer and target normally need to hire advisors, most importantly financial advisors, to go through with the procedure. Targets and acquirers often hire their financial advisors, through a process where the advisors *pitch* (present) why they are most suited to help the firms in the transaction. Research shows that one variable that can have impact on this decision is the potential financial advisor's experience and acquaintance with the other part involved in the process.[3]

Earlier research is mostly exploring relationships in Investment Banking regarding acquirers. There is also a great amount of research that has focused on the relationship between client and financial advisor in the lending branch of banking. As far as we know, there is little research regarding the relationship between target and advisor in M&A. We find this relationship particularly interesting to investigate due to the lack of research, the difference in M&A relationships compared to lending relationships, and industrial development. The advisor and

[1] Morrison A., Wilhelm W. (2013)
[2] Morrison A., Wilhelm W. (2013)
[3] Ianotta G. (2010: 121)

target-firm relationship is often more dynamic than the relationship between a lending institution and its client. The main reason for this difference is that lending relationships can be more standardized when the relationship increases, while M&A transactions are often very different from deal to deal, even with an information advantage gained from prior cooperation.[4] Does this complexity in the M&A process increase the importance of relationships and trust in your financial advisor?

The purpose with our paper is therefore to investigate the relationship between target-firm and financial advisor in M&A transactions. How important is relationship building in this industry today, from the target's viewpoint? Can target-firms benefit from being loyal to their financial advisor by rehiring the same advisor for further M&A transactions? Additionally, for what type of M&A transactions will this be benefitting and how much will it benefit targets? The main questions we aim to answer are:

I. Are target-firms benefiting in terms of lower advisor fees or faster closed deal, from having a relationship with a financial advisor? Also, what type of deals will benefit firms most and to what extent?
II. What decides if a target-firm chooses to build a relationship with a financial advisor?

Our main findings show that relationship building does not have a significant effect on the advisor fee and speed of transactions. Instead of earlier cooperation, transaction-oriented variables such as, size of transaction and amount sought in the target-firm, have a larger influence on advisor fee and speed. Even though benefits as lower advisor fee and a quicker closed deal will not be gained by building a relationship, target-firms still tend to stay loyal to their financial advisor when transactions are large (>$1 000 000 000), when they are cooperating with one of the top banks or when they already have had an earlier cooperation with that particular advisor.

We choose to distinguish our paper from the conventional structure and have a more narrative method for presenting our research. The traditional academic structure have a tendency of dividing the paper into several, smaller parts which we find could distract the reader and limit the fluency for a shorter paper as ours. Instead we choose to merge some parts and focus on the fluency, reader friendliness and keeping the reader's interest

[4] Corwin SA, Stegemoller M. (2013)

throughout the paper. To strengthen these aims with our structure, we also mention our main questions in several sections, for the reader to easier keep the purpose of our paper in mind while reading the different parts.

Section two brings up our theoretical framework where we aim to give a deeper insight of the relationship between target and advisor as well as of traditional Investment Banking. Further in this section we discuss theory that should support or challenge our hypotheses. Lastly we present our hypotheses development and our main questions that we aim to answer. In section three we firstly present our research approach, secondly we describe our data sample and our variables. In this section we also bring up our estimation techniques to give the reader a deeper insight of the process of our research. Lastly, we discuss strengths and weaknesses of our study. Section four consists of our research results, where we reveal the results individually for each of our questions. Our discussion of the main results is presented in section five, where we also discuss each question separately. Finally, in section six we bring up our main conclusions from the discussion. In section seven we give our proposals for further research.

2. Theoretical Framework

2.1 Target-Advisor Relationship and Traditional Investment Banking Overview

M&A advisors are often hired by both the buying and selling firm to help them navigate through the process. For this service, they charge an advisor fee[5]. The variety of different M&A fees can vary from simple fixed fee contracts to more intricate and tailored agreements[6]. As stated before, we focus on the relationship between the financial advisor and the target firm. It is well-known that a financial advisor to the target-firm has a higher potential compensation than being advisor to the acquiring company. This is because the usual transaction agreement often includes a success fee in the completion of the deal.[7]

Despite the variety, the fees can commonly be separated into two simple types, fixed fee contracts and fees that are contingent on the success or completion of the deal. The most common contract includes both a fixed fee and a contingent fee. Recent developments have led to a more mixed use of contingent fees. One reason for this is that the target-firm can create incentives for the advisory to act in a common interest as the payment depends on the outcome.[8]

The speed of the transaction is another factor that is important for the target-firm. Several studies have been made regarding the question of speed and its benefits and impacts on M&A transactions. Generally, these studies show that there is a positive relationship between the speed of the transaction and the final outcome of the M&A deal. This is because a quick execution will minimize the uncertainty amongst the participants. Because of this, a relatively fast M&A deal is something firms often value. Worth noticing is that under certain circumstances, as when dealing with a cross-border M&A where large cultural differences can emerge, a slower attitude might be more favorable than a faster one.[9]

There is also a variety of different characteristics of an M&A deal that can affect both the advisor fee and the speed of the transaction. One feature is the size of the transaction's value; this value can differ substantially between different transactions. Statistics show that in 2012 the global break-down of different deal sizes where

[5] Forte G., Ianotta G., Navone M. (2008)
[6] Hunter W., Walker M. (1990)
[7] Forte G., Ianotta G., Navone M. (2008)
[8] Hunter W., Walker M. (1990)
[9] Homburg C., Bucerius M. (2006)

23,2% ($0-500 million), 28,3% ($501-2 000 million), 30,6% ($2 001-10 000 million) and 17,9% (10 001 million and over).[10] The advisor fees often increase with the size of the transaction, but not in direct ratio to the size. This is because the amount of work that goes into selling a large business is not often far from the cost of selling a smaller business.[11]

Another feature is the number of advisors involved in the M&A process which increases the complexity of the transaction and is something that varies from deal to deal[12]. An additional feature is if the deal attitude is hostile or friendly. A hostile deal attitude is when the management of the target-firm is unwilling to agree on an M&A deal. Further, a hostile takeover can cause severe asymmetrical information. This increases the complexity and effort that the financial advisor has to put into the deal as they are not able to access the same amount of information as in a friendly negotiation.[13]

Another feature of the deal is the percentage sought in the target-firm. Also this could be a feature that is different from deal to deal. Does the acquiring firm seek to seize 100% of the target firm's stock and does this affect the price that the target has to pay to its financial advisor and will it affect the speed of the transaction?[14] The industry of the target-firm is also a feature that might have an impact on the transaction, one industry that is particularly difficult to value is the finance industry. This is due to the amount of information asymmetries that can be associated with the profits of banks etcetera.[15]

Further, the relationship between firms and financial advisors has changed in the last half decade, targets and acquirers are now more willing to pick banks on a deal-to-deal basis rather than building a long-term relationship. By doing so they can seek the lowest issuance fee, best deal appointment or any other condition they desire. Earlier, firms could lower the asymmetrical information problem with long-term relationships but the recent development with contingent fees, diminishes the significance of these relationships.[16] Another reason for the decrease in importance of relationship banking is the technology development, which enables financial

[10] The Statistics Portal
[11] Walter TS, Yawson A., Yeung CPW (2008)
[12] Kale JR., Kini O., Ryan HE. (2003)
[13] Chahine S., Ismail A. (2009)
[14] Ianotta G. (2010: 123)
[15] Xiang P., Zhou J., Zhou X., Ye K. (2012)
[16] Morrison A., Wilhelm W. (2013)

advisors to monitor and advise firms at longer distances than before. With new technology, firms can also choose from a larger variety of financial advisors as they are no longer limited by the geographical proximity.[17]

Another factor that affects the firm's loyalty in terms of firms keeping a relationship with their advisor, is the reputation of the financial advisor. Highly reputed advisors have a higher probability to be selected again for further transactions.[18] In 2007, firms spent $4,2 trillion on M&A activity worldwide. Investment Banks acted as financial advisors in 85% of these deals by transactions value[19]. The Investment Banks are dominated by a group of "bulge bracket" banks. The bulge bracket is made up by the largest and most profitable Investment Banks. These top-tier banks are less likely to create value-destroying deals for the target and are instead more likely to create value-enhancing deals. Also, top-tier banks have a higher probability of completing a deal compared to lower-tier banks.[20]

Target-firms do not rehire financial advisors in the same extent as before, and the process of employing a new or rehiring a financial advisor is now a critical decision for many firms. Research shows that regarding this decision, target-firms should use the same valuations as in any other financial decision, meaning that they should choose the best choice for increasing the wealth of the company.[21]

2.2 Theoretical Support and Challenges

2.2.1 Asymmetrical Information

The theory of asymmetrical information was first presented by George A. Akerlof's paper *The market for"lemons: Quality Uncertainty and the market Mechanism*. In this paper Akerlof describes asymmetrical information problem in the case of the automobile market. His main argument is that in many markets the buyer has limited information about the good, while the seller has more intimate knowledge about the particular item. He further argues that this information asymmetry gives incentives to the seller to conceal certain elements of the specific item in order to get a higher price.[22] In the case of M&A, we can see the target-firm as the seller and the

[17] DeYoung R., McMillen DP., Klier T. (2003)
[18] Dempere JM (2011)
[19] Golubov A., Petmezas D., Travlos NG (2012)
[20] Rau P. (2000)
[21] Bower HM, Miller RE (1990)
[22] Akerlof GA (1970)

financial advisor as the buyer. All markets are exposed to asymmetrical information[23], because of this, information gathering and information exchange take a very important part of the financial advising in order to determine the price of a certain company[24].

A problem that might arise in the M&A process is if the target-firm obscures certain elements which make the due-diligence process harder for the financial advisor. This might later lead to the cancellation of the M&A deal and the financial advisor will only receive a retainer fee for the service. The target-firm can also be exposed to asymmetrical information since the financial advisor might not act in the interest of the target-firm. It's hard for the target to measure the effort of the financial advisor and pay them an advisor fee that is in relation to that effort. One way to decrease the asymmetrical information problem is through relationship building.[25] Evidently, having done a transaction with a client before reduces the effort to collect information and it will also make the information more secure. Research shows that through building a relationship and hence decreasing the amount of asymmetrical information and effort in collecting the information, the price paid by the client to its advisor for the service can be reduced.[26]

Even more recent research, considers aspects that have decreased the importance of Investment Banks building relationships with their clients. One important aspect is the technology development during the last decades that has affected Investment Banks by facilitating information collection. The research shows that relationship building between Investment Banks and clients is today less important than half a decade ago, but still not insignificant. It also shows that clients through other sources of information, partly because of better information technology, have been able to easier pick banks that offer lower fees and satisfy their other criterions. Hence there can be a tradeoff between seeking to fulfill criterions for lowest price and building a relationship.[27]

2.2.2 Relationship Banking

Relationship banking is defined as the financial intermediary providing financial services on the basis on long-term relationships with the client firm. The financial advisor and client firm can attain specific information and other benefits through multiple interactions with each other like earlier M&A, IPO (Initial Public Offering) or

[23] Xiang P., Zhou J., Zhou X., Ye K. (2012)
[24] Karapetyan A., Stacescu B. (2008)
[25] Hauswald R., Marquez R. (2000)
[26] Forte G., Ianotta G., Navone M. (2008)
[27] Morrison A., Wilhelm W. (2013)

other related transactions. Such relationship building can ease the monitoring and screening process which will reduce the asymmetrical information.[28] Firstly, the cost of information production will be reduced with multiple transactions[29]. Secondly, financial advisors and clients can build trust and commitment through repeated transactions, often allowing for low-cost renegotiations of contracts[30]. Some other benefits from relationship banking in M&A is due to trust, related to the contract features: 1) Relationship banking might lead the target firm to disclose more information than in a transaction-oriented relationship; 2) M&A contracts often include a retainer fee as collateral but with relationship building this fee can be negotiated[31].

A study regarding acquiring firms shows that switching costs are high to the extent that the acquiring firm is willing to pay a higher fee when it chooses to stay with its current advisor than to switch advisor. It further shows that this willingness for paying a higher fee is not only the consequence of the cost of switching advisor but also because of other benefits received from building a relationship with a financial advisor. A conclusion from this research is that the acquiring firm usually receives some other non-fee related benefits from having a long-term relationship with an advisor that makes them willing to pay a higher advisor fee.[32]

2.3 Hypothesis Development

2.3.1 Is it Profitable for Targets to Build a Relationship with Its Financial Advisor?

In this paper we aim to measure the effect that relationships between targets and financial advisors have on the advisor fee and speed of transaction. With answering our first question we want to understand if firms can benefit or are worse off, from developing a relationship with a financial advisor in regard for M&A future transactions, in other words, is it better for firms to be loyal and have continuous cooperation with the same financial advisor or do they benefit in terms of paying a lower fee and/or get the deal closed quicker, if they switch banks? Hence we are trying to investigate the tradeoff between the impact of relationships setting the price and the market price. If firms are driven by a profit motive is it better to build a long relationship with a financial advisor or should they choose financial advisor on a deal-to-deal basis? For what type of deal is it beneficial? Also, what is the magnitude of these benefits?

[28] Boot AWA (2000)
[29] Petersen MA, Rajan RG (1994)
[30] Lehmann E., Neuberger D. (2001)
[31] Boot AWA (2000)
[32] Saunders A., Srinivasan A. (2001)

2.3.2 What Type of Deals Bring Benefits that Make Targets Stay Loyal?

Secondly we want to understand the nature of the relationship between target-firm and financial advisor in terms of when the benefits arise most and what affects the relationship. We aim to investigate what type of deals are those that bring most benefits if the firm is building a relationship with a financial advisor, concerning future M&A deals with the firm as a target. We want to understand if it is firms that are performing larger or smaller transactions that are most loyal. Is the outcome of the last deal, more exactly if the deal was successful or not, affecting the loyalty of the target towards its financial advisor. What decides if the target-firm chooses to switch advisor?

Our main questions that we aim to answer in our research are therefore:

I. Are target-firms benefiting in terms of lower advisor fees or faster closed deal, from having a relationship with a financial advisor? Also, what type of deals will benefit firms most and to what extent?

II. What decides if a target-firm chooses to build a relationship with a financial advisor?

3. Data and Empirical Strategy

3.1 Research Approach

For our study, we use a quantitative method, cross sectional regressions to be able to study the patterns of relationships in the M&A industry. When using a quantitative method you evaluate theories and hypotheses as well as new evidence. Using this method enables us to focus on numerical and descriptive statistics as results of the study and also lets us generalize these results. Our aim is to investigate our hypotheses with variables that are both numerical and descriptive. From our results we strive to draw some generalized conclusions regarding benefits, relationships and loyalty between target-firm and financial advisor in the M&A industry.[33]

Further, our research approach is inductive because our results are observations from earlier happenings that we then draw conclusions from and also, our hypothesis is derived from earlier research results[34].

3.2 Sample Description and Definition of Variables

For collecting our data we used S&P Capital IQ which is our only source of data. S&P Capital IQ is a multinational database that provides real-time data for business research and analytics coverage, on over 60.000 public companies and 2.2 million private companies. Its data contain financial information, M&A activity, and research reports.[35] In our transaction screening we first narrow down the data to only include transactions with advisors located in the United States and Europe. Next we narrow down the data by announced date. Because we want to examine M&A transactions, this has to be included in the narrowing. Also, we want to include only transactions over the last couple of years but still collect enough data for our research, therefore we limit the screening to include M&A deals (all M&A features) that have been announced from January 1st 2010 to December 31st 2012. A reason for narrowing down the data sample by region is to reduce the amount of data in attempt for not collecting too much and not too little, but just enough data for our research. Our procedure, before performing the regressions and tests, include a great deal of manual processing of the data sample, thus we need a manageable data sample. This is also a reason for restricting our data to only include transactions over

[33] Moghaddam G., Moballeghi M.
[34] Web Center for Social Research Methods
[35] S&P Capital IQ

a three year period. A second reason for this narrowing is that we want to look at data that is up-to-date, especially since the industry has changed. Because we aimed to investigate the relationship between target and financial advisor we also narrowed down our screening to transactions where the target has had a financial advisor and the advisor fee is shown. This screening process gave us a sample of 686 observations which we included in our regressions.

Our variables consist of both qualitative and quantitative data. For accuracy we choose to keep most of the quantitative data numerical. For estimating the effect of the quantitative data we transform those variables into dummy variables.

To test our questions:

I. Are target-firms benefiting in terms of lower advisor fees or faster closed deal, from having a relationship with a financial advisor? Also, what type of deals will benefit firms most and to what extent?

II. What decides if a target-firm chooses to build a relationship with a financial advisor?

We choose variables that we think can have an impact on our hypothesis, based on our theoretical research. These we divide into dependent and independent variables. The dependent variables are in some regressions tested as independent and are therefore labeled under both independent and dependent variables.

Definition of Variables:

Dependent Variables

Advfee	Fee paid by target to financial advisor measured as a percentage of total transaction value. *This is one of the variables where we believe that there can be benefits to gain in terms of lower advisor fee due to relationship building. Because of the lowering monitoring and screening costs as a result of relationship building, we want to see if this also affects the advisor fee.*
Speed	How fast the deal was implemented measured in days, from announced date to closed date. *As stated, a fast M&A deal is something that firms normally desire. We therefore choose to examine also this variable as something that could benefit firms and want to see what affects the speed and then, when firms will receive this benefit in terms of a faster closed deal.*

D_Switch If the target switched financial advisor for this deal or not. Measured as a dummy variable where 1 equals to a firm that has switched financial advisor since their last M&A deal.

To answer our second question we use this variable to see what affects if a firm chooses to switch financial advisor or stay loyal and continue to build on a relationship.

Independent Variables

Advfee Fee paid by target to financial advisor measured as a percentage of total transaction value.

This variable we use as an independent variable for examining the effect of advisor fee on speed. Assuming that financial advisors want to receive higher compensation; will they work faster if being paid a higher fee?

Complexity Measured as number of different advisors to target involved in the transaction.

Because this is a feature that can vary from deal to deal we are incorporating this variable in our research to measure if complexity is something that affects the advisor fee or speed of the deal. Will the number of advisors in an M&A deal affect these variables in a positive or negative way or not at all?

Sought What amount of the target that is bought, measured in percentage of the firm.

This is another feature of M&A deals that is varying. Our aim with incorporating this variable is to see if this variation is affecting the advisor fee or speed in any way. Are firms receiving benefits from being acquired fully?

Speed How fast the deal was implemented measured in days, from announced date to closed date.

As stated, firms want a quickly closed deal, hence our belief that speed of an M&A deal could be a factor that firms are willing to pay a higher advisor fee for. Because of this we incorporate speed as an independent variable for measuring the effect of speed on advisor fee.

D_Earlcoop Earlier cooperation measured in number of earlier deals between target and the current financial advisor. We have taken into account earlier M&A deals, IPOs and similar transactions.

Because we are examining the relationship between target and financial advisor and its effects on advisor fee, speed and if firms are staying loyal, this is a variable that we incorporate for answering both of our questions. We choose to look at earlier cooperation between the target and the financial advisor's M&A section as well as similar sections. Referring to earlier statements, we consider these sections of financial advisory firms, such as Investment Banks, to be enough close for us to consider them important for the relationship between target and financial advisor. We look at earlier cooperation throughout the targets' lifecycles to incorporate all of their earlier cooperation with particular financial advisors.

D_Indfinancials If a firm is in the financial industry, measured as a dummy variable, where 1 means that the firm is in that industry.

As we stated earlier, companies in the financial industry can be particularly hard to value, for this reason we want to see if this affects the advisor fee that the target-firm has to pay. We also check if the speed of completion is affected if the target-firm is operating in the financial industry.

D_Sizedeal

Classifies the transactions into small or large, where a large transaction is > $1 000 000 000 and a small transaction is < $1 000 000 000. The variable is measured as a dummy variable where 1 equals a transaction classified as large.

As the deal size can differ greatly from different transactions we use this variable to see if the size of the transactions is something that affects the advisor fee and speed of completion. We choose to define a large deal as above $1 000mm as Financial Times has four categories for deal sizes in the following order in ($mm): 1) 0-500 2) 500-1 000 3) 1 000-5 000 4) 5 000+. When we transform the size into a dummy variable we use $1 000 mm as a large transaction.[36]

D_EarlOutcome

If the target's latest M&A deal was successful or not. Measured as a dummy variable where 1 equals a successful earlier outcome.

We would like to see if the outcome of the target´s last M&A deal will affect the decision if the firm chooses to switch financial advisor for the next M&A deal. We also check if the earlier outcome affects the next advisor fee and speed of the transaction.

D_Switch

If the target switched financial advisor for this deal or not. Measured as a dummy variable where 1 equals a firm that has switched.

Based on our theoretical presentation, switching advisor can cause costs for the target-firm. We therefore incorporate this variable to examine the effect on advisor fee and speed. This helps us measure the effect on these variables for when firms have switched financial advisor since their last M&A deal. Hence we can measure if staying loyal and building a relationship brings benefits in terms of lower advisor fee and faster closed deal.

D_Topbank

Classifies the financial advisors into two categories - top banks and other financial advisors. The top banks are: Goldman Sachs, Morgan Stanley, JP Morgan, Barclays, Citi, Deutsche Bank, Credit Suisse, Bank of America Merill Lynch, Rothchild, UBS. (Källa FT) Measured as a dummy variable where 1 equals a top bank.

Due to the higher success rate of M&A deals performed by top banks we assume that target-firms desire having these as financial advisors. We therefore include this variable to see both if firms have to pay a higher advisor fee and get a faster closed deal from hiring a top bank, and also if they are staying loyal more often to top banks. We have used the classification of top banks as stated by the Financial Times[37]*.*

D_Hostile

Categorizes if a deal is hostile or friendly in nature, we measure this as a dummy variable where 1 equals hostile deal attitude.

We include this variable as hostile deals are more complex because of a negative attitude from the target-firms management. This negative attitude can be expressed by an unwillingness to cooperate from the target-firm's side, causing severe problems with asymmetrical information.

[36] Financial Times
[37] Financial Times

3.3 Estimation Techniques

To analyze the selected benefits that may arise from relationship building between target and financial advisor in an M&A deal, and to analyze what additional factors determine if a firm proceeds with relationship building, we use a data sample of descriptive variables, both qualitative and quantitative. Further, before examining our data we transform the qualitative variables into dummy variables.

To answer our first question regarding benefits received in terms of lower advisor fee for target-firm to pay and a faster closed deal, we run two least square regressions. In the first one we let advisor fee be the dependent variable and run the other variables as independent to measure which of these have a significant effect on advisor fee and hence what will lead to the benefit of a lower fee to pay for financial advising. In the second least square regression we let speed be the dependent variable and run all the others as independent, to measure which variables affect the speed of an M&A deal.

The least square regression we run for measuring what variables affect financial advisor fee:

$$Advfee_i = \beta_1 + \beta_2 Complexity + \beta_3 Speed + \beta_4 D\_Earlcoop + \beta_5 D\_Hostile + \beta_6 D\_Sizedeal + \beta_7 Sought + \beta_8 D\_Indfinancials + \beta_9 D\_Earloutcome + \beta_{10} D\_Switch + \beta_{11} D\_Topbank + \varepsilon_i$$

The least square regression we run for measuring what variables affect speed:

$$Speed_i = \beta_1 + \beta_2 Complexity + \beta_3 Advfee + \beta_4 D\_Earlcoop + \beta_5 D\_Hostile + \beta_6 D\_Sizedeal + \beta_7 Sought + \beta_8 D\_Indfinancials + \beta_9 D\_Earloutcome + \beta_{10} D\_Switch + \beta_{11} D\_Topbank + \varepsilon_i$$

Further to answer our second question, regarding what determines if a firm chooses to be loyal or to switch financial advisor, we run a probit regression where we let the dummy variable for switching be the dependent variable. We choose only to include the variables: size of deal, earlier outcome, classification of the financial advisor, earlier cooperation and deal attitude as independent variables, because due to earlier research, incorporated in our theoretical framework and our motivations under sample description, we find these to be possibly significant. Lastly, we run Chi-square tests for the variables that are showing to be significant in our probit regression, to strengthen our results. Only for the variable D_Hostile we choose to perform a Fisher's

exact test due to the low frequency of hostile transactions in our data sample. For this variable, hostile transactions only account for 0,87% of our total observations, therefore Chi-square with small counts may come up with inaccurate results because of the estimation that the test performs. A requirement for performing a Chi-square test is that the expected frequency of most categories should be at least 5 and no expected frequency should be less than 1. When the sample size is small and requirements for performing a Chi-square test are not fulfilled, Fisher's exact test is a better choice.[38]

Because the dependent variable is a dummy variable we cannot use a least square regression to estimate our model. For estimating these types of models that are classified as Binary Choice Models, the most common approaches are logit analysis and probit analysis. They both provide very similar estimates; where probit tend to give slightly higher or lower estimates than logit. Using one of these methods we can, through a couple of steps, get the marginal effect on the probability of firms switching financial advisor.[39]

The probit regression we run for measuring what variables affect if firms switch advisor:

$$D\_Switch_i = \beta_1 + \beta_2 D\_Hostile + \beta_3 D\_Sizedeal + \beta_4 D\_Topbank + \beta_5 D\_Earlcoop + \beta_6 D\_Earloutcome + \varepsilon_i$$

Where the probability for switching is:

$$P_i = f(Z) = \frac{1}{\sqrt{2\pi}} e^{-\frac{1}{2}Z^2} \qquad \textbf{(1)}$$

$$D\_Switch_i = \begin{cases} 1 \text{ with probability } P_i \\ 0 \text{ with probability } 1 - P_i \end{cases}$$

By estimating our model with a probit regression we can test which of the variables that are having a significant effect on the target-firm's choice of switching financial advisor or staying loyal, with the p-value that is shown in

[38] Körner S., Wahlgren L. (2006: 252-257)
[39] Dougherty C. (2011: 365-366)

the regression output. To measure the more precise effect that the variables have on this decision, we need to find the probability for switching and multiply it with each coefficient from the regression, as shown below.[40]

$$\textit{Marginal effects} = f(Z)*\beta_i = \frac{1}{\sqrt{2\pi}} e^{-\frac{1}{2}z^2} *\beta_i \qquad \textbf{(2)}$$

To find the probability $P_i = f(Z)$ we need to calculate Z for the mean values of the explanatory variables, which we do by summarizing the mean values for each independent variable in the probit regression. Then we incorporate this Z value as shown in the probit regression table, into formula (1) to receive the probability function. Lastly, we multiply our coefficient values of the independent variables with this expression as in formula (2). We do these last steps manually, from the summarizing of mean values to calculating the marginal effects. By doing so, we can interpret these values as the marginal effect of each independent value on the probability of a firm switching advisor.[41]

3.4 Strengths and Weaknesses of the Study

Through our study we choose to include a number of variables that we find interesting in the evaluation of our hypothesis, based on our motivation in section 3.2. We recognize that there might be a number of significant variables that are not captured by our data sample. There are certain variables that we are not able to collect in S&P Capital IQ, such as how large share of the advisor fee that was contingent to the deal. Through a survey, more soft variables could be collected, such as the satisfaction of the transaction and the targets own opinion of the relationship with their earlier financial advisors. A target might have earlier cooperation with several financial advisors but other circumstances might make one of the relationships stronger and affect their choice of staying with that particular financial advisor. We cannot include soft variables like these because we have not performed such a survey.

We only look at prior IPO, M&A and similar transactions because we find these to be closely related. Although a relationship between target and financial advisor could perhaps be affected by the firm's relationships with other parts of the financial advisor's business divisions. One example could be if the target-firm has had prior lending cooperation with a financial advisor that also provides M&A actives like the global banks.

[40] Dougherty C. (2011: 365-366)
[41] Dougherty C. (2011: 365-366)

A strength is that our data sample consist of 686 observations which is a quite large number. A weakness with our data sample is that some of the variables contain a rather large amount of missing values, as in the case where we measure loyalty where 22% of the observations are undisclosed.

One strength of our study is the fact that we are looking at earlier cooperation that extends over the firms' lifecycles. This gives us all prior relationships between firms and financial advisors. Some firms do not perform M&A activities often and it is therefore important for us to look at all historical data.

Another strength of our study is that we have significant results, enabling us to make a discussion and draw conclusions. This may indicate that our questions are well framed for our sample data. Our results are also supporting several earlier research results that are brought up in this paper.

4. Research results

4.1 Results Regarding Question One

Are target-firms benefiting in terms of lower advisor fees or faster closed deal, from having a relationship with a financial advisor? Also, what type of deals will benefit firms most and to what extent?

One variable that we need to include to be able to answer our question regarding benefits acquired from a relationship between the target and financial advisor is the loyalty factor. What amount of the firms choose to stay with their earlier financial advisor and hence build a form of relationship, and how many choose to switch financial advisor? Our sample shows that around 51% of the firms switched financial advisor since their last M&A deal, which implies that around half of the firms found it more beneficial to not continue a relationship. Further, about 47% have had earlier cooperation with its latest financial advisor in form of a target-firm choosing to return to an earlier advisor.

Figure 1. Loyalty in terms of keeping the financial advisor from the last M&A deal

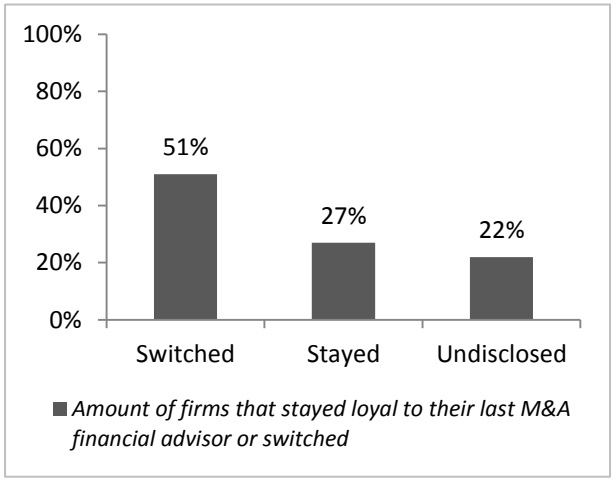
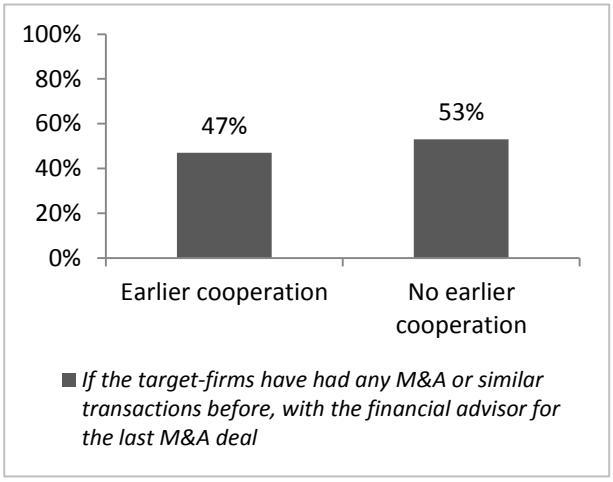
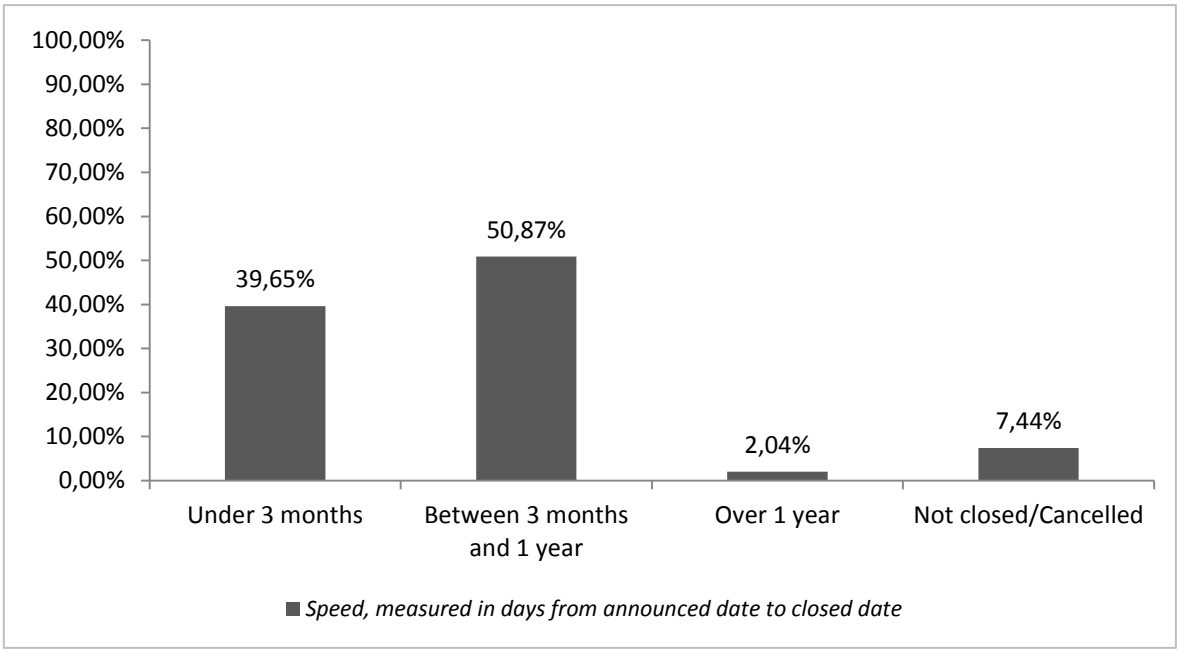


Figure 2. Earlier cooperation between target-firm and financial advisor



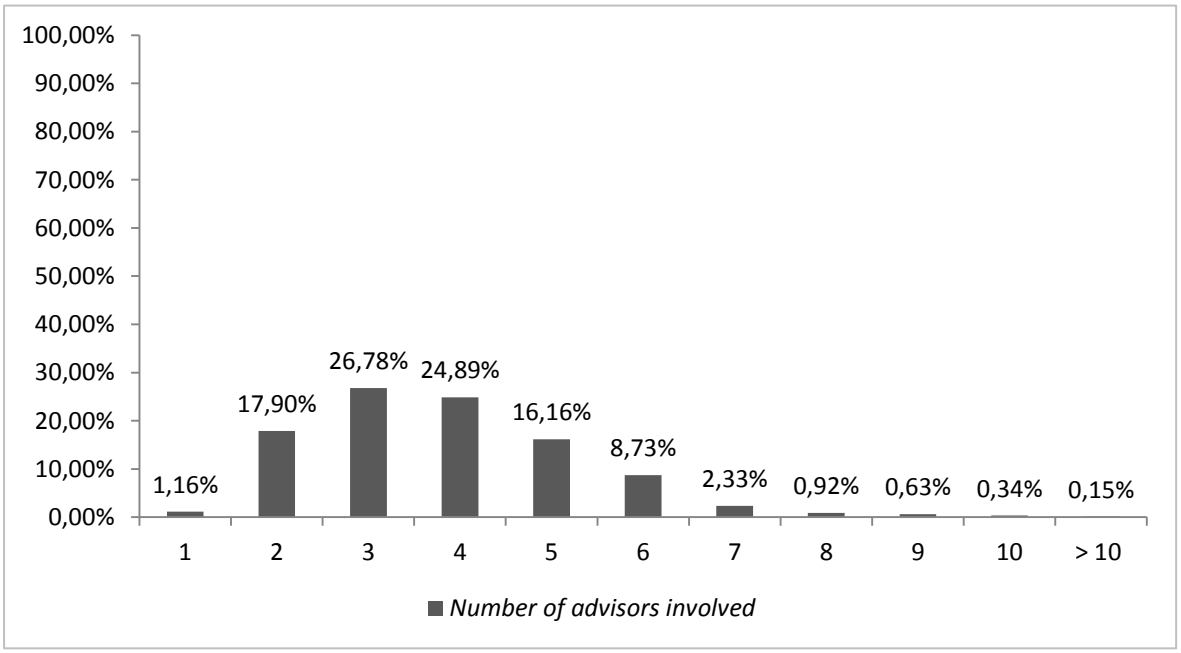
Regarding the speed of a transaction, we find that the average amount of days needed to complete an M&A deal from announced date to closed date, is 121 days. The fastest M&A deals required around a month's time to close, while the longest deal in our sample took 637 days or two years, from the announced date to closed date.

Figure 3. Speed of transaction



As mentioned before, one of our variables included in our research is complexity of the M&A deal in terms of number of advisors to target that are involved. The table below shows that the majority of the firms still choose more than one advisor and most often have between two and five advisors involved in the M&A transaction. Only 1,16% of the firms choose to involve only one advisor in the process.

Figure 4. Complexity in terms of number of advisors involved in M&A deals



The amount sought in a target is something that we also thought could be an influencing factor for the advisor fee paid by the target. Our sample shows that a majority of the firms, around 86%, are fully bought by its buyer. We also found that the average deal value for our sample is $1 629 970 000 which we classify as a large transaction value.

Figure 5. Amount sought in target-firm

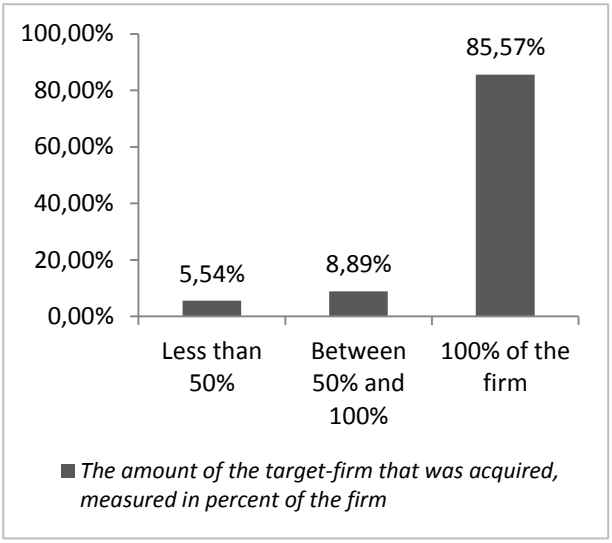
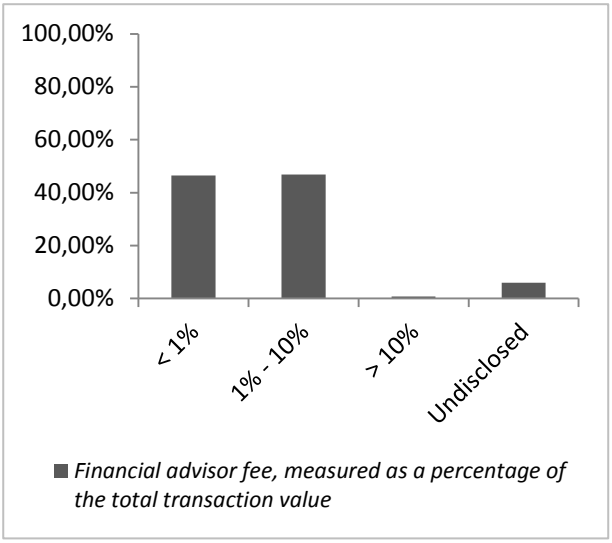
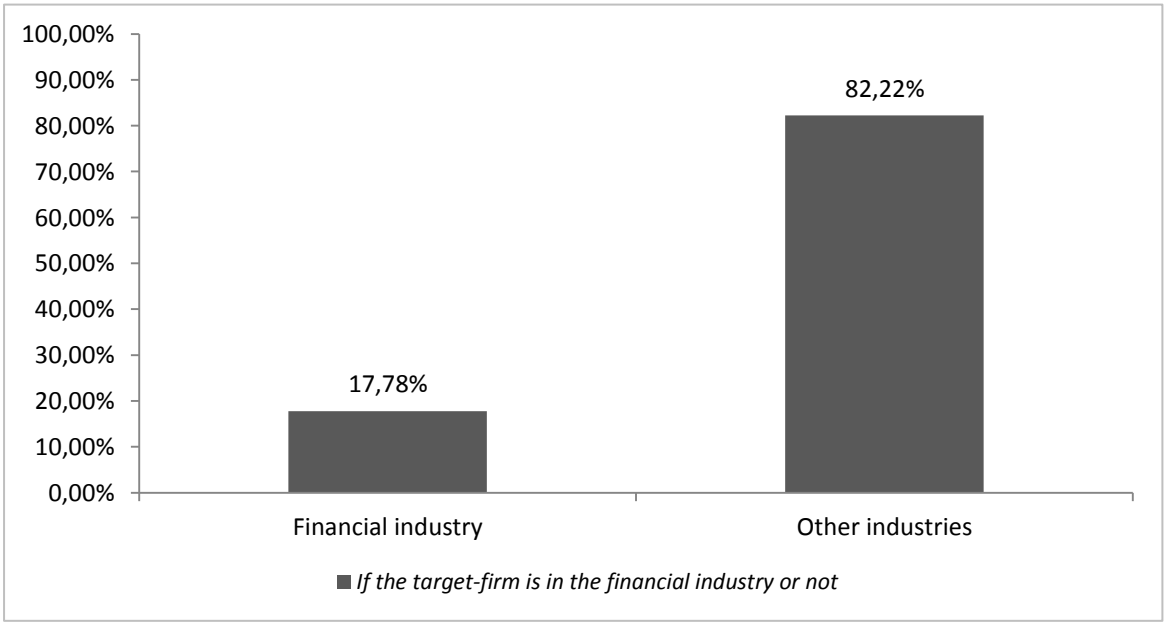


Figure 6. Financial advisor fee



From our data we can also see that, almost 20% of the target-firms in our data sample belong in the finance industry. The rest of the target-firms in our sample are divided across several different industries.

Figure 11. Belongingness in the financial industry



From our regressions, as shown in Table 1 on the page 25, we see that speed in fact has a highly significant effect on the advisor fee, more exactly speed is statistically significant on a 1% level. The longer it takes to close the deal, the lower advisor fee the target has to pay to its financial advisor. In percentage this effect means that for every day longer that the deal takes, the advisor fee decreases with 0,002% of the total transaction value. This is not a big impact considering that financial advisor fees are on average 1,55% of the total transaction value. Complexity on the other hand does not have a statistically significant effect on the advisor fee as we originally thought. The total number of advisors does affect the amount paid to each financial advisor though not significantly. Further we see that if the deal is large (> $1 000 000 000) it will generate a lower price in relation to the total transaction value; this is statistically significant on a 1% level. This means that for a small transaction firms pay a higher percentage in advisor fee to its financial advisor, than for a large transaction. If the transaction is classified as large the target-firm will pay approximately 0,816% less of the total transaction cost in financial advisor fee, which is a much stronger result compared to that from speed. Also the industry that the target firm is located in has an important role in determining the advisor fee. If the target is in the financial industry it will affect the financial advisor's compensation to grow with 0,494%, which is statistically significant on a 1% level.

As stated, complexity does not affect the advisor fee to the financial advisor in a significant way, though it does have a highly statistical significant effect on the speed of the transaction. Statistically, complexity is significant on a 1% level. For each additional advisor that the target involves, the transaction will take almost 15 days longer to close. Our regression further shows that for a higher price the financial advisor works faster to close the deal. More specifically, advisor fee is significant on a 1% level and the marginal effect of one unit higher advisor fee is a decrease in almost seven days.

The belongingness of the target-firm in the financial industry, showed to be highly significant for both the speed of transactions and the advisor fee paid by target. On a significance level of 1%, the marginal effect of being in this industry as a target-firm, increases the advisor fee with almost 0,5% of the total transaction value. Also on a significance level of 1%, being in the financial industry as target lengthens the transaction with 49 days.

If the M&A deal is of hostile nature, this will increase the process with 35 days but is only statistically significant on a 10% level. We can also see a significant effect on a 1% level on speed by the target's industry. If the target is in the financial industry the deal will take 49 days longer to proceed. Further, the regression result

shows that if the target's buyer acquires a larger percentage of the firm, this will impact negatively on the days for transaction completion. On a significance level of 1%, the deal will take around one day less to close for every additional percentage of the target-firm that is acquired.

The values in Table 1, that are not in brackets are the coefficients, and should be interpret as marginal effects. The values in brackets are the standard errors for the coefficients above them. We show the significance level for each coefficient by marking with asterisks, as explained in the table.

Table 1. Least square regressions, advisor fee and speed

	Advfee	Speed
Complexity	-0,016 [0,042]	14,803*** [2,390]
Speed	-0,002*** [0,001]	-
Advfee	-	-6,547*** [2,012]
D_Earlcoop	-0,147 [0,160]	3,550 [9,407]
D_Hostile	0,774 [0,892]	35,412* [18,629]
D_Sizedeal	-0,816*** [0,143]	14,637 [9,029]
Sought	0,000 [0,003]	-1,146*** [0,369]
D_Indfinancials	0,494*** [0,181]	49,173*** [9,387]
D_Earloutcome	-0,018 [0,342]	39,406*** [7,940]
D_Switch	-0216 [0,175]	3,528 [11,147]
D_Topbank	-0,034 [0,138]	-2,489 [7,522]
_cons	1,929*** [0,535]	121,278*** [41,394]
N	478	478

* p<0,1; ** p<0,05; *** p<0,01

Our Wald tests, as show on the next page, done on the regressions above, confirm that some of the independent variables involved are significant for our dependent variables advisor fee and speed. To confirm the insignificance of the independent variables that we cannot state are significant from our regression results, we also perform Wald tests testing if these variables are all equal to zero. As the test results show, these variables have no effect on the dependent variables advisor fee and speed.

Table 2. Wald tests, advisor fee and speed

	Advfee			Speed		
	Value	df	Probability	Value	df	Probability
F-statistic	7,308421	(10, 467)	0,0000	12,26075	(10, 467)	0,0000
Chi-square	73,08421	10	0,0000	122,6075	10	0,0000

Null hypothesis: all independent variables are equal to zero

Table 3. Wald tests, advisor fee and speed

	Advfee			Speed		
	Value	df	Probability	Value	df	Probability
F-statistic	0,319342	(7, 467)	0,9452	0,895655	(4, 467)	0,4881
Chi-square	2,235391	7	0,9457	3,438622	4	0,4873

Null hypothesis: insignificant variables from the least square regressions are all equal to zero.

4.2 Results Regarding Question Two

What decides if a target- firm chooses to build a relationship with a financial advisor?

Answering our second question, one thing we want to investigate is if the deal attitude has an impact on the firm's choice to switch advisor. In our sample only about 1% of the firms have a hostile approach from the buyer. The rest of the deals are classified as friendly. Further, our sample shows that the majority of the deals are smaller than $1 000 000 000, while around 30% of the deals are worth $1 000 000 000 or worth even more.

Figure 7. Deal attitude

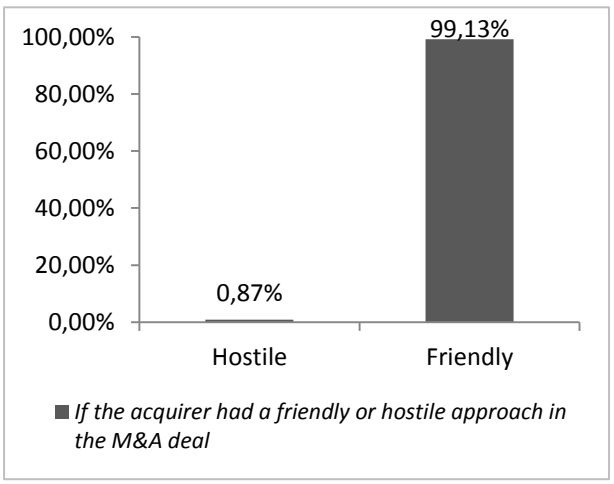
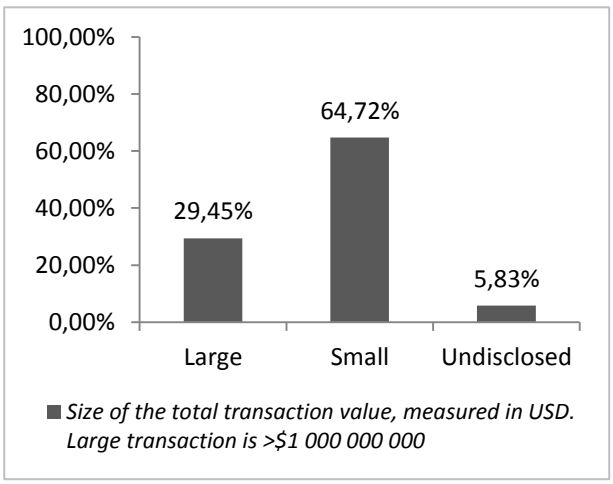


Figure 8. Size of the M&A transaction



As stated earlier, we choose to classify the financial advisors associated as a top bank or as other financial advisors. We find that, as much as 36,73% of all deals, involved one of the top banks as a financial advisor. Another factor we think could be important for firms being loyal or not, is the outcome of their earlier M&A deal. Our data shows that a large majority of the firms' earlier deals had been successful and only 2,48% of the firms had had unsuccessful status of their earlier M&A deal.

Figure 9. Classification of financial advisors

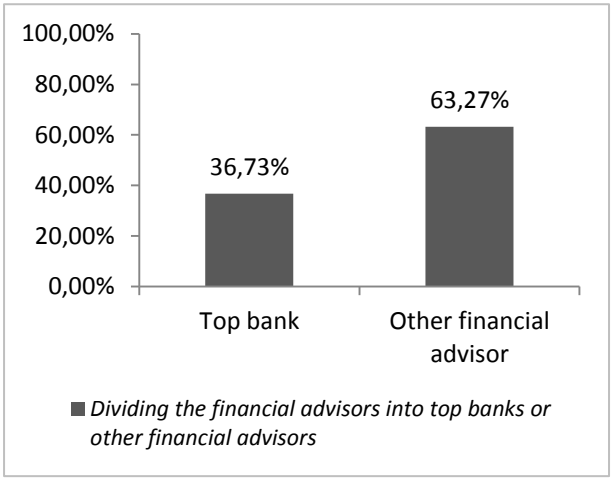
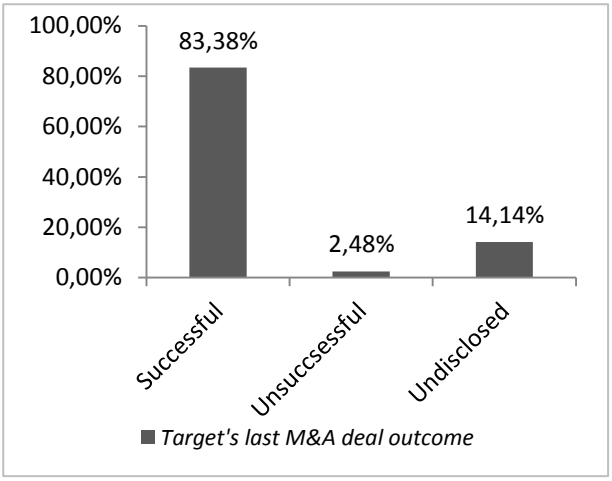


Figure 10. Outcome from the earlier M&A deal



Our regression shows that on a statistically significance level of 10%, if the deal had a hostile attitude, the firms were more inclined to switch financial advisor. More exactly, if an M&A deal has a hostile approach, this will increase the probability for the target to switch financial advisor with 1,84%. It also tells us that the size of the deal has on a statistically significant level of 1% a negative effect on the firm's decision to keep their last financial advisor or to switch to another one. If the total transaction amount is equal to or larger than $1 000 000 000, then this will decrease the probability of target switching advisor with 1,14% which is in fact a smaller impact than that from deal attitude. Also, if a target-firm's last financial advisor was one of the top banks, this will on a statistically significant level of 1% affect the switching decision negatively. This means that if a firm had one of the top banks as financial advisor for their last M&A deal, they will often stay with that advisor for their next M&A deal as well. The marginal effect on the probability for switching is a decrease of 1,11%.

One factor that we thought should have a significant effect on the firm's choice of switching or not switching advisor was the outcome of the firm's earlier M&A deal. This showed not to be significant. On the other hand, if

the firm has had similar cooperation sometimes before with a financial advisor, this will significantly affect their choice of staying loyal to that advisor. On a statistically significance level of 1%, earlier cooperation will affect the probability of switching financial advisor with a decrease of 4,81%.

Table 4. Probit regression, switched financial advisor

	D_Switch	f(Z)	Marginal Effects
D_Hostile	0,913* [0,551]	0,0201	0,0184
D_Sizedeal	-0,567*** [0,177]	0,0201	-0,0114
D_Topbank	-0,550*** [0,175]	0,0201	-0,0111
D_Earlcoop	-2,395*** [0,201]	0,0201	-0,0481
D_Earloutcome	-0,875 [0,569]	0,0201	-0,0176
_cons	3,281*** [0,607]	-	
N	507	507	507

* p<0,1; ** p<0,05; *** p<0,01

Our Chi-square test results as seen in the appendix support the significant effect that both the fact if the financial advisor is a top bank or not; size of the deal and; if there has been an earlier cooperation between target and financial advisor, have on the choice if the target will switch financial advisor or stay loyal. Due to the low frequency in our data of M&A deals with a hostile deal attitude, this variable does not fulfill the requirement for performing a Chi-square test, as explained in section 3.2, instead we use Fisher´s exact test to test this variable against the frequency of switching. What this test tells us is that we should not interpret the variable for deal attitude as a having a statistically significant effect on target's decision for switching advisor. [42]

[42] Appendix

5. Discussion

5.1 Discussion of Question One

Are target-firms benefiting in terms of lower advisor fees or faster closed deal, from having a relationship with a financial advisor? Also, what type of deals will benefit firms most and to what extent?

In support to the more recent research we mentioned in our theoretical framework, relationship building seems to not bring a relationship discount anymore. According to our results this is also true for the relationship between target and financial advisor. Instead, more transaction related variables such as speed, size of deal and industry have today a significant effect on the advisor fee. Targets will benefit in terms of lower advisor fee, if they do not rush the transaction process. This could be due to the fact that it is the same amount of information that the financial advisor needs to collect. Therefore the advisor will naturally demand a higher price for performing this service more quickly. In the same way is the size of deal affecting advisor fee. We see that a larger transaction will not bring with it a higher financial advisor fee for target, instead it is the opposite. We believe that this is a consequence of the fact that the financial advisor has to perform about the same service for a smaller transaction as a larger.

Further, the results from our least square regressions strengthen our hypothesis that if the target-firm is in the financial industry, it will affect both advisor fee and speed of transaction. This may indicate that if the target-firm belongs in an industry that complicates valuation, it will increase the financial advisor fee and prolong the time for closing the deal.

Our research shows that also the speed of M&A transactions is not being significantly affected by earlier cooperation between target and financial advisor, also in this case it is more transaction related variables and deal features that are affecting our variable speed. Increasing the number of advisors involved and hence complexity showed to be an increasing factor for the number of days required completing the transaction. This can be interpret as a higher claim for communication between the advisors and target and advisors mutually, which could be a factor for increasing asymmetrical information. Also a reason for this could be that the complexity of the specific deal is larger when the firm includes more advisors. A hostile approach will increase the number of days to complete the transaction. As expected, this indicates that it usually takes longer to

complete a hostile takeover than a non-hostile one due to the added complexity with hostile takeovers. One reason for the added complexity is the increased asymmetrical information which makes it harder for the financial advisors to collect information.

As discussed above there are variables affecting advisor fee although earlier cooperation is not one of them. In section 2.2.2 we presented results from a study by Saunders and Srinivasan, showing that acquiring firms do not gain any advisor fee discount due to earlier cooperation. The study shows instead that firms are willing to pay a higher advisor fee for other gained benefits in the transaction.[43] In our study we can see that this seems to be true also for the target-firm. Our results do not support an advisor fee discount due to earlier cooperation between target-firm and financial advisor, although firms seem to be willing to pay a higher financial advisor fee to gain the benefit in terms of a faster closed deal.

5.2 Discussion of Question Two

What decides if a target-firm chooses to build a relationship with a financial advisor?

As we show, firms do not receive benefits in terms of lower advisor fee or a quicker closed deal when staying loyal to the financial advisor. Despite this, at least a third of all targets choose to rehire their last financial advisor, as our research shows. As stated earlier, firms do not tend to keep their advisors out of laziness since it is an important part of financial planning for many firms. So what makes firms still being loyal?

Our results indicate that deals that are of large transaction value will affect the firms willingness to stay loyal positively, meaning that the probability for switching advisor is decreased when the transaction size is larger than $1 000 000 000. This may further indicate that firms trust their last advisor, and when a large transaction amount is involved, they tend to stay with that advisor that they are trusting. We draw a similar conclusion from the result regarding firms' intention to stay loyal if the financial advisor is one of the top banks. As earlier research has shown, firms usually trust top banks to bring a satisfying result and have an advantage compared to other financial advisors.

[43] Saunders A., Srinivasan A. (2001)

The deal attitude has a vague significance on the decision of switching advisor, although it still has an important effect as presented in our results. The fact that the probability for switching advisor increases, when the deal attitude is hostile may indicate that firms do not want to destroy the relationship with their previous financial advisor, due to the uncooperative nature of a hostile deal. This could indicate that target-firms want to nurture their relationships with their financial advisor previous to the hostile deal, for future cooperation after the hostile M&A deal.

If a firm has had earlier cooperation with a financial advisor, it strengthens the chance to return to that advisor for future transactions. Our results show that relationships are not as important in the M&A industry as they have been, referring to earlier studies. What this might indicate is that new relationships are harder to start today due to their decrease in importance, but firms that already have an ongoing relationship with their financial advisor will tend to stay with that advisor. Therefore, there must be some benefits gained by the target firm for staying loyal.

6. Conclusions

As shown relationship banking does not affect price and speed significantly anymore. But there still exists a problem with asymmetrical information. This could be due to the decrease in relationship banking. We therefore conclude that there is a tradeoff between maximizing benefits in terms of lower price and faster deal, and asymmetrical information.

Transaction-oriented variables are today having a larger and more significant impact on advisor fee and speed of the deal. This also implies that relationship banking in the M&A industry has decreased in importance. We conclude that as a target-firm, being loyal to a financial advisor will not make any impact on neither the advisor fee nor the speed of completion of the M&A deal.

Firms tend to stay loyal to their financial advisors as a kind of security due to trust, or in hope for satisfying result. These are other benefits that are brought by relationship banking that are perhaps less measurable than advisor fee and speed of transaction. Hence there are some benefits left to gain for target in building a relationship with its financial advisor.

Firms tend to switch advisor if the M&A deal has a hostile attitude. We draw the conclusion that this is because they see some benefits with relationship with their current advisor that they do not want to destroy, due to hostile-deal circumstances.

If there already is an existing relationship between target-firm and financial advisor, firms then tend to stay loyal to that advisor. From this, we conclude that relationships can bring benefits for target-firm. Although these are other benefits than lower advisor fee and a faster closed deal, as are explored by us.

7. Suggestion for Future Research

Although relationship banking is a widely studied area, there still remain questions to answer regarding the relationship between target-firms and financial advisors and also other relationships in the M&A industry.

A suggestion is to examine the questions we aim to answer in this paper but include different variables that can be attained through a qualitative research method. This would enable the researcher to dig deeper in the nature of the relationship between target-firm and financial advisor. By collecting survey data regarding variables such as satisfaction of a transaction; targets own opinion about earlier cooperation; and the targets own valuations of benefits that can be gained through relationship building, the researcher will perhaps be able to receive more results regarding the questions when firms feel that they gain benefits with a financial advisor and what decides when they choose to stay loyal to the advisor.

As commonly known, technology development has simplified networking and also enhanced its importance industry-wide. It can be interesting to investigate the impact that networks have on the target-advisor relationship and on the target-firm's decision to stay loyal or switch advisor. This could also bring answers regarding the importance of networking in M&A industry. This question could be broadened to cover more parts of the banking industry.

Another angle for approaching the questions we designed for this paper is to investigate them but from the financial advisor's point of view. Instead of questioning if the target-firm benefits from relationship building in the M&A industry, this question can instead be expressed in terms of what benefits the financial advisor could gain. Also, instead of asking what decides when a target-firm chooses to build a relationship with its financial advisor, the question could be reversed into asking when a financial advisor chooses to build a relationship with a client.

8. Appendix

Chi-square test 1. Frequency of Top Banks and Switching Financial Advisor

```
. tabulate D_Switch D_TopBank, chi2 column row
```

Key
frequency *row percentage* *column percentage*

D_Switch	D_TopBank 0	1	Total
.	120	31	151
	79.47	20.53	100.00
	27.65	12.35	22.04
0	63	122	185
	34.05	65.95	100.00
	14.52	48.61	27.01
1	251	98	349
	71.92	28.08	100.00
	57.83	39.04	50.95
Total	434	251	685
	63.36	36.64	100.00
	100.00	100.00	100.00

```
          Pearson chi2(2) =  96.3341   Pr = 0.000
```

Chi-square test 2. Frequency of Large transactions and Switching Financial Advisor

```
. tabulate D_Switch D_SizeDeal, chi2 column row
```

Key
frequency *row percentage* *column percentage*

D_Switch	D_SizeDeal 0	1	Total
.	123	15	138
	89.13	10.87	100.00
	27.70	7.46	21.40
0	72	106	178
	40.45	59.55	100.00
	16.22	52.74	27.60
1	249	80	329
	75.68	24.32	100.00
	56.08	39.80	51.01
Total	444	201	645
	68.84	31.16	100.00
	100.00	100.00	100.00

```
          Pearson chi2(2) = 100.5506   Pr = 0.000
```

Chi-square test 3. Frequency of Earlier Cooperation and Switching Financial Advisor

```
. tabulate D_Switch D_EarlCoop, chi2 column row
```

Key
frequency *row percentage* *column percentage*

D_Switch	D_EarlCoop 0	1	Total
.	88	60	148
	59.46	40.54	100.00
	24.38	18.69	21.70
0	7	178	185
	3.78	96.22	100.00
	1.94	55.45	27.13
1	266	83	349
	76.22	23.78	100.00
	73.68	25.86	51.17
Total	361	321	682
	52.93	47.07	100.00
	100.00	100.00	100.00

```
          Pearson chi2(2) = 257.8547   Pr = 0.000
```

Fisher's Exact test 1. Frequency of Hostile Deal Attitude and Switching Financial Advisor

```
. tabulate D_Switch D_Hostile, column exact row
```

Key
frequency *row percentage* *column percentage*

```
Enumerating sample-space combinations:
stage 3:  enumerations = 1
stage 2:  enumerations = 2
stage 1:  enumerations = 0
```

D_Switch	D_Hostile 0	1	Total
.	151	0	151
	100.00	0.00	100.00
	22.24	0.00	22.04
0	183	2	185
	98.92	1.08	100.00
	26.95	33.33	27.01
1	345	4	349
	98.85	1.15	100.00
	50.81	66.67	50.95
Total	679	6	685
	99.12	0.88	100.00
	100.00	100.00	100.00

```
          Fisher's exact =                 0.562
```

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